

# DOCKET SECTION

BEFORE THE  
POSTAL RATE COMMISSION

RECEIVED

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POSTAL RATE AND FEE CHANGES, 1997

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DOCKET NO. R97-1

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ERRATA OF UNITED PARCEL SERVICE  
TO DIRECT TESTIMONY OF RALPH L. LUCIANI  
(UPS-T-4)

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(January 14, 1998)

In their testimony, UPS witnesses Stephen E. Sellick (UPS-T-2) and Ralph L. Luciani (UPS-T-4) state that in calculating the proposed DBMC discount, Postal Service witness Crum failed to make a premium pay adjustment, thereby overstating the estimated DBMC entry avoided costs. See, e.g., UPS-T-2 at 20 and UPS-T-4 at 6. However, it has since been discovered that the Postal Service did in fact make a premium pay adjustment. Accordingly, UPS withdraws that portion of the testimony of witnesses Sellick and Luciani which (1) states that a premium pay adjustment was not made and (2) goes on to make what has turned out to be a duplicate adjustment.

A list of the resulting changes to Mr. Luciani's testimony and exhibits is provided below, and revised pages of the affected testimony and exhibits are also attached. A revision to Mr. Sellick's testimony is being filed separately.

The recommended rates attached to Mr. Luciani's testimony as Exhibit UPS-T-4H are not affected by this revision, since those rates reflect only a single premium pay adjustment, as is appropriate.

Respectfully submitted,

A handwritten signature in cursive script, reading "Stephanie Richman". The signature is written in black ink and is positioned above a horizontal line.

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**ERRATA OF UNITED PARCEL SERVICE  
TO DIRECT TESTIMONY OF RALPH L. LUCIANI (UPS-T-4)**

<u>Page</u>	<u>Line(s)</u>	<u>Reads</u>	<u>Should Read</u>
6	11-12	cost estimate, nor did he make a premium pay adjustment.	cost estimate.
6	13	operations and for premium pay	operations
8, Table 2	6	( <i>minus</i> ) Premium Pay Adjustment ... N/A ... 885	Delete entire line
8, Table 2	7	19,923	20,808
8	10	calculation and making a premium pay adjustment	calculation
8	11	6.3 cents	5.0 cents
10	12	5.4 cents	5.3 cents
11, Table 3	6	( <i>minus</i> ) Premium Pay Adjustment ... 0 ... 885	Delete entire line
11, Table 3	8	16,551	17,436
11, Table 3	9	26.0	27.4
11	12	by 11.7	by 10.3
11	13	of 26.0	of 27.4
11	15	of 35.2	of 36.6
11	21	11.7 cents	10.3 cents
12	2	11.7 cents	10.3 cents
12	3	45.9 cents	47.3 cents
22, Table 7	9	35.2	36.6
22, Table 7	10	45.9	47.3

**ERRATA OF UNITED PARCEL SERVICE  
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<u>Page</u>	<u>Line(s)</u>	<u>Reads</u>	<u>Should Read</u>
26	19	26.0 cents	27.4 cents
31, Table 11	6	35.2	36.6
31, Table 11	6	27.1	28.2
31, Table 11	7	45.9	47.3
31, Table 11	7	35.3	36.4
40, Table 13	16	27.1	28.2
40, Table 13	16	0.329	0.341
40, Table 13	16	25.4	26.4
40, Table 13	18	0.232	0.231
40, Table 13	19	0.419	0.417

**Exhibit UPS-T-4A:**

1 of 1	4	Operations and to Adjust for Premium Pay)	Operations)
1 of 1	6, A.1.	\$19,922,713	\$20,807,467
1 of 1	9, A.3.	\$13,647,059	\$14,253,115
1 of 1	10, A.4.	\$33,569,772	\$35,060,582
1 of 1	15, C.1.	\$0.298	\$0.311
1 of 1	18, D.2.	\$0.314	\$0.327

**ERRATA OF UNITED PARCEL SERVICE  
TO DIRECT TESTIMONY OF RALPH L. LUCIANI (UPS-T-4)**

<u>Page</u>	<u>Line(s)</u>	<u>Reads</u>	<u>Should Read</u>
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**Exhibit UPS-T-4B:**

1 of 2	4	Operations and to Adjust for Premium Pay	Operations
1 of 2	7, A.1.	\$19,922,713	\$20,807,467
1 of 2	10, A.1B.	\$16,550,986	\$17,435,740
1 of 2	13, A.3.	\$11,337,425	\$11,943,482
1 of 2	14, A.4.	\$27,888,411	\$29,379,222
1 of 2	19, C.1.	\$0.247	\$0.261
1 of 2	22, D.2.	\$0.260	\$0.274

**Exhibit UPS-T-4G:**

1 of 1	4, [2]	\$ 0.352	\$ 0.366
1 of 1	6, [4]	\$ 48,129,079	\$ 50,043,304
1 of 1	13, [11]	\$ 50,536,967	\$ 52,451,192
1 of 1	14, [12]	\$462,029,147	\$463,943,372
1 of 1	16, [14]	\$ 1.91238	\$ 1.92030
1 of 1	21, [2]	\$ 1.91238	\$ 1.92030
1 of 1	22, [3]	\$ 0.27100	\$ 0.28200
1 of 1	23, [4]	\$ 0.00329	\$ 0.00341
1 of 1	24, [5]	\$ 0.25402	\$ 0.26440
1 of 1	26, [7]	\$ 0.00232	\$ 0.00231

ERRATA OF UNITED PARCEL SERVICE  
TO DIRECT TESTIMONY OF RALPH L. LUCIANI (UPS-T-4)

<u>Page</u>	<u>Line(s)</u>	<u>Reads</u>	<u>Should Read</u>
1 of 1	27, [8]	\$ 0.17903	\$ 0.17908
1 of 1	29, [10]	\$ 0.00419	\$ 0.00417
1 of 1	30, [11]	\$ 0.32338	\$ 0.32347

1                   **1. Mr. Crum overstates the pool of costs**  
 2                   **that DBMC entry avoids**

3                   DBMC entry avoids outgoing mail processing costs at non-BMCs, i.e.,  
 4 mail processing costs incurred at the origin AO and the origin SCF. In the past, the  
 5 Postal Service has not counted as part of the costs avoided by DBMC entry any of  
 6 the costs of the mail preparation and platform acceptance operations.<sup>4</sup> In addition,  
 7 the Postal Service also made a premium pay adjustment to the costs avoided.<sup>5</sup>

8                   Mr. Crum removed the costs of these two operations and also made a  
 9 premium pay adjustment in his derivation of the avoided cost for DBMC entry in  
 10 Docket No. MC97-2.<sup>6</sup> However, in this proceeding Mr. Crum has not removed the  
 11 costs of these operations from his avoided cost estimate. As can be seen from  
 12 Table 1, adjusting for the costs of these excluded operations reduced the estimated  
 13 DBMC entry avoided costs significantly in Docket Nos. R90-1 and MC97-2.

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4. Mail preparation is the operation in which mail is prepared for distribution, including the rewrapping of damaged pieces; platform acceptance is the operation in which mail is accepted at the platform. LR-H-1, pages 3-3, 3-2. In the past, the Postal Service (and the Commission) also did not count the costs of the postage due and central mail markup operations as avoided costs. However, in FY 1996 there are no outgoing costs for the postage due and central mail markup operations.

5. Docket No. R90-1, USPS-T-12, Exhibit L. A premium pay adjustment takes into account differences in the extent to which individual subclasses incur night and Sunday labor costs.

6. Docket No. MC97-2, USPS-T-7, Exhibit C; id., USPS-LR-PCR-39, Table 1, p. 1.1.

**Table 2: Revised Calculation of DBMC Entry Avoided Costs**

*(Thousands of Base Year Dollars)*

	<b>Crum R97-1 (Proposed)</b>	<b>Crum R97-1 (Revised)</b>
<b>Outgoing Mail Processing Costs</b>	56,746	56,744
<i>(minus)</i> Cost of Excluded Operations	N/A	4,250
<i>(minus)</i> Outgoing Costs at BMCs	32,769	31,686
<b>Outgoing Costs Avoided by DBMC Entry</b>	23,977	20,808

Sources: LR-H-144, Table 1, p. 5; UPS-T-2, p. 21, Table 6.

As shown in Exhibit UPS-T-4A, removing the costs of these operations from the avoided cost calculation decreases the non-transportation avoided cost for DBMC entry by 5.0 cents per piece.

**2. Mr. Crum fails to adjust DBMC avoided costs for ASF costs**

Contrary to prior Commission rulings,<sup>8</sup> Mr. Crum also failed to exclude any ASF costs from the pool of outgoing mail processing costs avoided by DBMC entry. On cross-examination he stated, without giving any analytic basis, that the exclusion of ASF data from the avoided mail processing cost calculation in this proceeding would make little or no difference. Tr. 5/2297. However, the Commission's exclusion of ASF costs from the pool of mail processing costs

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8. Opinion and Recommended Decision, Docket No. R90-1, p. V-349.



1 I used Ms. Daniel's model of Parcel Post BMC operations to derive  
2 the mail processing costs in cents per piece that are classified as "outgoing" at the  
3 BMC. I then applied these average outgoing BMC mail processing costs per piece  
4 to the ASF Parcel Post volumes supplied by Ms. Mayes (Tr. 8/4121-31) in order to  
5 estimate the outgoing mail processing costs incurred at ASFs when an ASF is  
6 acting as a BMC. This yields an estimate of \$3.4 million. See Exhibit UPS-T-4B.  
7 This is a conservatively low estimate, since the parcel sorting productivity at ASFs  
8 is almost certainly lower -- and therefore the ASF costs are almost certainly higher -  
9 - than what Ms. Daniel derives for the fully-mechanized BMCs.

10 I then deducted these ASF outgoing mail processing costs from Mr.  
11 Crum's avoided mail processing costs for DBMC entry. This correction lowers the  
12 DBMC non-transportation discount by an additional 5.3 cents per piece. See  
13 Exhibit UPS-T-4B.

### 14 3. Revised DBMC entry avoided cost

15 The combined effect of the revisions discussed above is shown in  
16 Table 3.

**Table 3: Revised DBMC Entry Avoided Mail Processing Costs***(Thousands of Base Year Dollars)*

	<b>Crum R97-1 (Proposed)</b>	<b>Crum R97-1 (Revised)</b>
Outgoing Mail Processing Costs	56,746	56,744
(minus) Cost of Excluded Operations	0	4,250
(minus) Outgoing Costs at BMCs	32,769	31,686
(minus) ASF Outgoing Costs when ASF Acts As a BMC	0	3,372
Outgoing Costs Avoided by DBMC Entry	23,977	17,436
DBMC Avoided Mail Processing Costs (TY cents per piece)	37.7	27.4

Sources: Docket No. R90-1, USPS-T-12; Docket No. MC97-2, USPS-LR-PCR-39; LR-H-144; UPS-T-2; Exhibit UPS-T-4B.

These changes reduce the DBMC mail processing avoided cost estimate by 10.3 cents per piece, yielding a revised DBMC mail processing avoided cost of 27.4 cents per piece. Adding the window and acceptance cost savings of 9.2 cents per piece yields a total revised non-transportation avoided cost for DBMC entry of 36.6 cents per piece.

#### **B. OBMC Entry**

The OBMC entry avoided cost (which is deducted from the inter-BMC rates) is calculated as the sum of the DBMC entry non-transportation avoided cost plus additional costs saved at the OBMC itself (due to the presorting requirement for the OBMC discount).<sup>12</sup> Thus, the 10.3 cents per piece decrease in avoided

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12. USPS-T-28, p. 4. Mr. Crum estimates OBMC entry avoided costs to be 57.6 cents per piece.

costs for DBMC entry derived above also reduces the avoided costs for OBMC entry by 10.3 cents per piece. This yields a revised OBMC entry avoided cost of 47.3 cents per piece.

### C. DSCF Entry

The Postal Service overstates the avoided costs for DSCF entry in three ways: (1) it overstates the number of DSCF parcels per container; (2) it fails to include in the cost of DSCF parcels the cost of Postal Service assistance in unloading DSCF parcels; and (3) it overestimates the transportation costs avoided by DSCF entry.

#### 1. The number of DSCF entry parcels per container is overstated

In deriving the non-transportation cost avoided by DSCF entry, Mr. Crum assumed that, on average, sacks would contain 10 machinable DSCF parcels and GPMCs would contain 25 non-machinable DSCF parcels.<sup>13</sup> On cross-examination, Mr. Crum stated that the source of his assumption is the Domestic Mail Manual, Quick Service Guide 700 (machinable parcels). Tr. 5/2290. However, that document cannot be used to determine the number of machinable parcels that will, on average, actually be in a sack. It merely requires that each sack contain, at a minimum, 10 pieces or 20 pounds or 1000 cubic inches. Consequently, a sack could contain one 20-pound parcel, or two 10-pound parcels,

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13. USPS-T-28, page 5.

prebarcode avoided cost should exclude Ms. Daniel's highly aggregate adjustment factor.

#### F. Summary of Revisions

Table 7 shows revised avoided cost estimates for Parcel Post worksharing resulting from the corrections discussed above.

**Table 7: Revised Parcel Post Worksharing Avoided Costs**  
(cents per piece, unless noted)

Avoided Cost	Proposed	Revised
DBMC Non-Transportation (off of Intra-BMC)	46.9	36.6
OBMC Non-Transportation (off of Inter-BMC)	57.2	47.3
BMC Presort Non-Transportation (off of Inter-BMC)	12.5 to 13.9	12.5 to 13.9
Prebarcoding	4.00	2.66
DSCF Non-Transportation (off of DBMC)	31.3	24.8
DSCF Transportation (off of DBMC Zone 1/2)	\$0.3138/cubic foot	\$0.2670/cubic foot
DDU Non-Transportation (off of DBMC)	46.0	44.8
DDU Transportation (off of DBMC Zone 1/2)	\$0.6475/cubic foot	\$0.6475/cubic foot

Sources: USPS-T-37, WP I.I., page 1; USPS-T-29, Exhibit 29E, p. 1; Exhibit USPS-16A; USPS-T-28, p. 8.

#### **THE POSTAL SERVICE'S EXCESSIVELY HIGH PASSTHROUGHS FAIL TO REFLECT THE UNCERTAINTY OF THE AVOIDED COST ESTIMATES**

The Postal Service passes through 98% to 100% of the estimated mail processing cost savings and 100% of the estimated transportation cost savings for all but one of the proposed discounts.<sup>23</sup> These high passthroughs fail to reflect the significant uncertainty surrounding the estimated cost savings,

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23. The passthrough for the machinable BMC presort discount is 90%.

1 avoidance passed through at 100% can lead to significant volumes of parcels  
2 being carried at below cost rates.<sup>29</sup>

3 Outlined below are nine uncertainties associated with the estimated  
4 cost savings in Parcel Post. Many of these uncertainties also apply to the existing  
5 DBMC worksharing discount.

6 1. Imperfect Execution. The Postal Service presumes perfect  
7 execution in implementing the new worksharing programs. For example, if inter-  
8 BMC presort or OBMC entry parcels are not merely cross-docked at the OBMC but  
9 rather are inadvertently sent through OBMC sortation, cost savings would be  
10 eliminated. In addition, under the Postal Service's assumptions, a prebarcoded  
11 piece would never be inadvertently keyed, DSCF entry pieces would never be sent  
12 back to the BMC for rerouting, DDU entry pieces would never be sent back to the  
13 DSCF or BMC for rerouting, and the Postal Service would never assist in the  
14 unloading of DDU entry pieces. Common sense suggests that such perfection is  
15 simply not possible, particularly in the case of new programs.

16 2. Inexplicable Changes from Prior Cases. The change in the  
17 estimated mail processing DBMC entry savings from 11.3 cents per piece in Docket  
18 No. R90-1 and 13.4 cents per piece in Docket No. R94-1 to 37.7 cents in this case  
19 (27.4 cents with my corrections) is significant. The magnitude of this increase in  
20 estimated cost savings is unexplained. This increase affects the OBMC, DBMC,  
21 DSCF, and DDU discounts. Moreover, just a few months before this proceeding

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29. On cross-examination, Ms. Mayes agreed that there was a "smaller margin of error" in subclasses with very low cost coverages. Tr. 8/4099.

both transportation and non-transportation avoided costs. The effect of uniformly applying a 77% passthrough is shown in Table 11.

**Table 11: Revised Parcel Post Worksharing Avoided Costs and Discounts**  
(cents per piece, unless noted)

Avoided Cost/Discount	Revised Avoided Cost	Discount with 77% Passthrough
DBMC Non-Transportation (off of Intra-BMC)	36.6	28.2
OBMC Non-Transportation (off of Inter-BMC)	47.3	36.4
BMC Presort Non-Transportation (off of Inter-BMC)	12.5 to 13.9	9.6 to 10.7
Prebarcoding	2.66	2.0
DSCF Non-Transportation (off of DBMC)	24.8	19.1
DSCF Transportation (off of DBMC Zone 1/2)	\$0.2670/cubic foot	\$0.2056/cubic foot
DDU Non-Transportation (off of DBMC)	44.8	34.5
DDU Transportation (off of DBMC Zone 1/2)	\$0.6475/cubic foot	\$0.4986/cubic foot

**THE POSTAL SERVICE HAS FAILED TO  
FOLLOW COMMISSION POLICY IN THE  
DERIVATION OF WORKSHARED RATES**

The Postal Service has failed to follow Commission policy in the derivation of Parcel Post rates in three particular instances.

**A. The DBMC Rates Are Based on a Reduction  
in DBMC's Institutional Cost Contribution,  
Not Just Avoided Costs.**

In the past, DBMC rates have always been derived directly as a worksharing discount off of the intra-BMC Parcel Post rates. Ms. Mayes has abandoned this past Postal Service and Commission practice in her rate design. Instead, Ms. Mayes uses the separate derivation of DBMC transportation costs

transportation charge would continue to be applicable to inter-BMC and intra-BMC mail. The non-transportation worksharing discounts for DBMC, DSCF, and DDU would have a pro rata share of this 2 cents per pound charge applied. The discount then would reflect the portion of the 2 cents per pound charge that is "avoided" by the worksharing category. After subtracting the discount, the resulting rates for DBMC, DSCF, and DDU mail would have a lower cent per pound non-transportation charge embodied within them, reflecting the lower number of processing operations that mail in these categories undergoes.

Using this logic, the per piece and per pound components that I recommend for the DBMC, DSCF, and DDU non-transportation discounts are shown in Table 13.

**Table 13: Breakdown of Non-Transportation Discounts for DBMC, DSCF, and DDU Entry into Per Piece and Per Pound Components**

Discount	Total Cents Per Piece Non-Transportation Discount	Cents per <u>Pound</u> Non-Transportation Discount Component	Cents per <u>Piece</u> Non-Transportation Discount Component
DBMC (off of intra-BMC rates)	28.2	0.341	26.4
DSCF (off of DBMC rates)	19.1	0.231	17.9
DDU (off of DBMC rates)	34.5	0.417	32.3

Source: Exhibit UPS-T-4G.

The workshared rates would be computed in the normal way, albeit with a new component. For example, DBMC rates would be computed as:

OUTGOING MAIL PROCESSING COSTS AT NON-BMC  
FACILITIES AVOIDED BY DBMC PARCEL POST

(Revised to Exclude Costs of Platform Acceptance and Mail Preparation Operations)

<u>A. Costs Avoided</u>		Source
1. FY 1996 Processing Costs	<b>\$20,807,467</b>	LR-UPS-Sellick-1-IV-A
2. Base Year 1996 Parcel Post Mail Processing "Piggyback" Factor	0.685	Library Reference H-77
3. Indirect Attributable Costs	\$14,253,115	Line 1 * Line 2
4. Total	\$35,060,582	Line 1 + Line 3
 <u>B. Volumes</u>		
1. FY 1996 Parcel Post volume entered upstream of BMC/ASF	112,738,479	USPS-T-28, Exhibit B, Line 11
 <u>C. Unit Costs</u>		
1. Unit Costs Avoided	\$0.311	Costs/Volume (Line A4/Line B1)
 <u>D. Test Year/Base Year Adjustment</u>		
1. TY/BY Wage Rate Adjustment Factor	1.053	Library Reference H-146
2. 1998 Estimated Test Year Costs Avoided	\$0.327	Line C1 * Line D1

Note: See USPS-T-28, Exhibit C, for the Postal Service exhibit upon which this exhibit is based.



OUTGOING MAIL PROCESSING COSTS AT NON-BMC  
FACILITIES AVOIDED BY DBMC PARCEL POST

Revised to: (1) Exclude Costs of Platform Acceptance and Mail Preparation  
Operations  
(2) Remove ASF Outgoing Costs When ASF Acts as a BMC

A. <u>Costs Avoided</u>		Source
1. FY 1996 Processing Costs	\$20,807,467	LR-UPS-Sellick-1-IV-A
1A. FY 1996 ASF Outgoing Mail Processing Costs When ASF Acts as BMC	\$3,371,728	UPS-T-4, Exhibit B, page 2
1B. Corrected FY 1996 Processing Costs	\$17,435,740	Line 1 - Line 1A
2. Base Year 1996 Parcel Post Mail Processing "Piggyback" Factor	0.685	Library Reference H-77
3. Indirect Attributable Costs	\$11,943,482	Line 1B * Line 2
4. Total	\$29,379,222	Line 3 + Line 1B
B. <u>Volumes</u>		
1. FY 1996 Parcel Post volume entered upstream of BMC/ASF	112,738,479	USPS-T-28, Exhibit B, Line 11
C. <u>Unit Costs</u>		
1. Unit Costs Avoided	\$0.261	Costs/Volume (Line A4/Line B1)
D. <u>Test Year/Base Year Adjustment</u>		
1. TY/BY Wage Rate Adjustment Factor	1.053	Library Reference H-146
2. 1998 Estimated Test Year Costs Avoided	\$0.274	Line C1 * Line D1

Note: See USPS-T-28, Exhibit C, for the Postal Service exhibit upon which this exhibit is based.

Average TYBR Non-Transportation Cost per Piece  
for Intra-BMC and Inter-BMC Parcel Post

		Source
[1]	TYBR Non-Transportation Costs	\$411,492,180 USPS-T-37 WP I.I., page 2.
[2]	DBMC NT Cost Saving per Piece	\$ 0.366 Table 11.
[3]	DBMC Volume	136,730,338 USPS-T-37 WP I.A., page 1.
[4]	DBMC Cost Savings	\$ 50,043,304 [2] * [3].
[5]	DSCF NT Cost Saving per Piece	\$ 0.248 Table 11.
[6]	DSCF Existing Volume	7,978,299 USPS-T-37 WP I.A., page 21-22.
[7]	DSCF Cost Savings	\$ 1,978,618 [5] * [6].
[8]	DDU NT Cost Saving per Piece	\$ 0.448 Table 11.
[9]	DDU Existing Volume	958,192 USPS-T-37 WP I.A., page 23.
[10]	DDU Cost Savings	\$ 429,270 [8] * [9].
[11]	TOTAL DBMC/DSCF/DDU Cost Savings	\$ 52,451,192 [4] + [7] + [10].
[12]	Adjusted TYBR NT Costs	\$463,943,372 [1] + [11].
[13]	Parcel Post Volume	241,599,000 USPS-T-37 WP I.A., page 1.
[14]	Average NT Cost per Piece	\$ 1.92030 [12] / [13].

Per Piece and Per Pound Components  
for DBMC, DSCF, and DDU Non-Transportation

[1]	\$0.02 * Contingency * Markup	\$ 0.02323	Contingency = 1.01, Markup Factor = USPS-T-37, WP I.I., page 2, Line 8.
[2]	Average NT Cost per Piece	\$ 1.92030	From above.
[3]	DBMC NT Discount	\$ 0.28200	Table 11.
[4]	DBMC NT per Pound Component	\$ 0.00341	([1] / [2]) * [3].
[5]	DBMC NT per Piece Component	\$ 0.26440	[3] - ([4] * [12]).
[6]	DSCF NT Discount	\$ 0.19100	Table 11.
[7]	DSCF NT per Pound Component	\$ 0.00231	([1] / [2]) * [6].
[8]	DSCF NT per Piece Component	\$ 0.17908	[6] - ([7] * [12]).
[9]	DDU NT Discount	\$ 0.34500	Table 11.
[10]	DDU NT per Pound Component	\$ 0.00417	([1] / [2]) * [9].
[11]	DDU NT per Piece Component	\$ 0.32347	[9] - ([10] * [12]).
[12]	Average Postal Pounds (Dropshipped)	5.15836	USPS-T-37 WP I.B., page 2 DBMC Total Postage Pounds / Total Volume.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document  
in accordance with section 12 of the Commission's Rules of Practice.

  
Stephanie Richman

Dated: January 14, 1998  
Philadelphia, PA